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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of California-American Water Company (U-210W) for Authority to Modify Conservation and Rationing Rules, Rate Design, and Other Related Issues for the Monterey District.

Application 15-07-019  
(Filed July 14, 2015)

**ADMINISTRATIVE LAW JUDGE'S RULING FOR ADDITIONAL INFORMATION**

**Summary**

The Commission may want to consider additional information in three areas. Within seven days, California-American Water Company (Cal-Am or applicant) shall file and serve a response to this ruling with the requested information. Within seven days of the date of the response, parties may file and serve replies. The proceeding will then be submitted for Commission decision.

**1. Recorded Actual Sales**

The Commission may wish to consider whether or not to use recorded actual sales for 2015, rather than 2014, as the basis for developing rates in this proceeding. Applicant shall provide 2015 data, and shall include 2014 data for comparison.

**2. Proposed Rule/Schedule 14.1.1.**

The second area involves the portion of the June 17, 2016 Settlement Agreement dealing with the modification to Monterey District Rule 14.1.1

(Rule 14.1.1) and Tariff Schedule MO-14.1.1 (Schedule 14.1.1), as amended by the July 13, 2016 Reply Comments. The motion for adoption of a Settlement Agreement identifies many changes or updates to Rule/Schedule 14.1.1. (*See* Motion at 4-6; Exhibit 1 at 6.) These changes or updates include but are not limited to reducing the number of Stages from seven to four, easier implementation, two levels for conservation rates, Cal-Am enforcement, rationing levels to be determined and noticed at time of need rather than preset, better coordination with the Urban Water Shortage Contingency Plan, and limiting the plan to one Stage of physical water rationing.

The Commission understands, however, that each of these changes or updates was already included in applicant's proposal (i.e., Exhibits 1 and 12; changes going from the existing Rule/Schedule 14.1.1 to applicant's proposed Rule/Schedule 14.1.1). The Commission also understands that the only updates or changes from applicant's proposal to what is included in the Rule/Schedule 14.1.1 attached to the Settlement Agreement (as amended by the July 13, 2016 Reply Comments) are: (a) the updates are consistent with the District's Regulation XV, as amended February 17, 2016 by Ordinance 169, and (b) applicant agrees to file a Tier 2 advice letter not only to implement Stage 3 (which begins implementation of Level 1 emergency conservation rates), but also when going from Level 1 to Level 2 emergency conservation rates within Stage 3.

Applicant shall clarify whether there are other updates or changes. Applicant shall also address certain items in Rule/Schedule 14.1.1 that are unclear, as specified below.

### **3. Interest Rates**

The Commission may wish to consider specific, actual interest rates between the 90-day commercial paper rate and the utility's 8.41% last approved cost of capital. Applicant shall provide the information specified below.

**IT IS RULED** that within seven (7) days of the date of this ruling, California-American Water Company (Cal-Am or applicant) shall file and serve a response with the following information. The response shall be verified by declaration under penalty of perjury (Rules 1.11 and 18.1 of the Commission's Rules of Practice and Procedure) and shall be signed by a person (or persons) who would testify to the contents therein if called as a witness (i.e., need not be a corporate officer). The response shall be marked for identification as Exhibit 16 on the date it is served. Parties may file and serve replies to applicant's response within seven (7) days of the date of the response. Exhibit 16 shall be received as evidence three (3) days after the last day that a party may file a reply unless an objection, if any, stated in a party's reply is sustained by subsequent ruling. The proceeding will be submitted for Commission decision upon receipt of Exhibit 16, or upon a ruling addressing receipt of Exhibit 16. The information required to be filed and served by applicant in its response is:

1. Recorded Actual Sales: Applicant shall provide a table showing recorded 2015 actual sales by class; for the residential class by tiers; for the non-residential class by division; and any other data reasonably necessary for the purpose of developing rates based on 2015 sales data in this proceeding. For comparison, the table shall also include the same data for 2014.
2. Proposed Rule/Schedule 14.1.1
  - a. Applicant shall clarify the exact and specific changes and/or updates between applicant's proposed Rule/Schedule 14.1.1 (Exhibit 1 and 12) and the amended proposed

Rule/Schedule 14.1.1 attached to the June 17, 2016 motion for adoption of a Settlement Agreement (as further amended in July 13, 2016 Reply Comments).

- b. 2016 Monterey Peninsula Water Conservation and Rationing Plan (2016 RP): In the 2016 RP, Stage 1 water waste fines run from notice (first offense) up to \$2,500 per day (Administrative Compliance Order or Cease & Desist Order). The fines are enforced by the Monterey Peninsula Water Management District (District) and its designated agents, unless indicated otherwise. Fines triple for customers using over 500,000 gallons per year. (June 17, 2016 Motion for Adoption of Settlement Agreement, Exhibit 1, Appendix E, Attachment 1, Rule 162, Section D and Table XV-5 at 162-4 and 162-5.)

Proposed Schedule 14.1.1: In proposed Schedule 14.1.1, water use restrictions in Stage 1 become subject to fines imposed by the utility when Stage 2 or higher is activated by Commission authorization. Those fines run from written warning (first offense) up to \$500 per day (fifth offense) and installation of flow restricting device (sixth offense). (Proposed Schedule 14.1.1, Section C.1.) Please address the following:

- i. When will the District enforce fines, and when will the District delegate that authority to the utility (as the District's agent or as otherwise indicated)?
- ii. Is enforcement solely the responsibility of the utility when Stage 2 has been authorized by the Commission pursuant to proposed Schedule 14.1.1?
- iii. If enforcement is not solely the responsibility of the utility in Stage 2, is some or all authority retained by the District?
- iv. If some or all authority is retained by the District, please explain what authority is delegated by the District, what is retained by the District, and how the authorities between the District and the utility are coordinated and not duplicative.

- v. In the 2016 RP, the fine for the second flagrant violation (which is the third offense) is \$250 when the violation is within two (2) months. (Motion for Adoption of Settlement Agreement, Exhibit 1, Appendix E, Attachment 1, Rule 162, Table XV-5 at 162-5.) In Schedule 14.1.1, the fine implemented by the utility for the third offense is \$250 when the violation occurs within one (1) year. Please explain the conflict, if any, between the noted two months and one year.
- vi. In the 2016 RP, fines are tripled for customers using over 500,000 gallons/year. (Motion for Adoption of Settlement Agreement, Exhibit 1, Appendix E, Attachment 1, Rule 162, Table XV-5, footnote, at 162-5.) There is no similar gallon per year adjustment to fines in proposed Schedule 14.1.1. Please explain.
- vii. In the 2016 RP, the maximum fine is \$2,500 per day, not to exceed \$100,000 (exclusive of some costs), with interest charged per month. In Schedule 14.1.1., the maximum fine is \$500 for the offense, and it is assessed as a fine on the customer's next bill. Please explain if the maximum fines are intended to be different (e.g., dollar amount; interest or no interest; assessed per day or only once per offense charged on the monthly bill, even if the offense continues.)
- viii. If the 2016 RP water waste fines and enforcement are intended to be different from the Schedule 14.1.1 fines and enforcement, please explain how this works.
- c. Proposed Schedule 14.1.1 states that, once the Schedule is activated, the utility can implement Stages 3 and 4 of the Schedule by filing a Tier 2 advice letter. (Schedule 14.1.1 at B.3.) References elsewhere state the expectation or requirement of a Tier 2 advice letter requesting activation of Stage 2. (Schedule 14.1.1 at G.1.) Please explain.
- d. The table in proposed Schedule 14.1.1 at part E.3 is incomplete. (See July 13, 2016 Reply Comments.) The Commission understands the table is the same as that

included in Exhibit 2. If this is incorrect, please provide a complete table.

- e. Please file and serve an amended Rule/Schedule 14.1.1 to make any necessary further updates, changes, or corrections, including those with respect to the items noted above, if any.
3. Interest Rates: The record should include other specific interest rates for the Commission's consideration when determining the duration of the amortization of the Water Revenue Adjustment Mechanism (WRAM) balance. Applicant shall provide the following:
- a. Current 90-day commercial paper rate.
  - b. Current interest rate on 3, 5, 7, 10 and 20 year Treasury Notes, Bills, or Bonds.
  - c. The lowest interest rate available in the open market for investment grade corporate debt over the periods of 3, 5, 7, 10 and 20 years.
  - d. The lowest interest rate for debt available within American Water Works Company, Inc. (e.g., from American Water Capital Corp) that can be used by applicant to finance the WRAM balance over 3, 5, 7, 10, and 20 years.
  - e. The current interest rate being charged to Cal-Am by the current actual funding source now being used to finance any part or all of the existing WRAM balance.

Dated September 2, 2016, at San Francisco, California.

/s/ ANNE E. SIMON for  
Gary Weatherford  
Administrative Law Judge